

## Canadian Export Gas &amp; Oil Ltd. and Consolidated Subsidiary Companies

## CONDENSED STATEMENT OF EARNINGS

	Quarter Ended Oct. 31		Six Months Ended Oct. 31	
	1965	1964	1965	1964
Crude oil and natural gas sales, less royalties	\$510,100	\$529,400	\$1,034,900	\$1,044,300
Royalty income	36,200	45,800	79,000	91,500
	546,300	575,200	1,113,900	1,135,800
Production, administrative and general expenses	179,500	126,200	337,000	266,800
NET OPERATING PROFIT	366,800	449,000	776,900	869,000
Rentals, interest and miscellaneous—net	129,900	42,400	192,300	92,300
CASH FLOW	236,900	406,600	584,600	776,700
Dry holes and abandoned properties	156,700	34,700	243,500	78,300
Amortization of bond discount	2,500	2,500	5,000	5,000
Gain on redemption of debentures	(1,300)	(4,000)	(2,100)	(6,300)
	157,900	33,200	246,400	77,000
NET EARNINGS BEFORE PROVISIONS	79,000	373,400	338,200	699,700
Provision for depletion and depreciation	129,000	133,000	260,200	263,000
NET EARNINGS (LOSS)	(\$50,000)	\$240,400	78,000	\$ 436,700

The figures quoted above are subject to year end audit.

INTERIM  
REPORT

OCTOBER  
31st - 1965



# CANADIAN EXPORT GAS & OIL LTD.

## TO THE SHAREHOLDERS:

This report covers the company's activities during the six month period ended October 31, 1965.

### *Exploration and Land*

The company is now in the midst of the intensified exploration program announced early this year at the time of the Siebens purchase.

Two oil discoveries have been made, farm-out agreements have been completed on 1,300,000 acres in Northwestern Alberta, nine exploratory wells have been drilled and seven exploratory wells have already been committed to probe company lands during the next six months.

This increased activity, together with the higher carrying costs on the land, has of course made the company's net earnings picture for the past six months less attractive than it has been for some years. However this activity is consistent with the company's policy of re-investing earnings in the search for bigger oil and gas reserves.

The two oil discoveries were both made in Saskatchewan—one in the Browning area and one in the Willmar area. CEGO's interest in the Browning area is 33⅓% except for the discovery well which is 66⅔% until pay-out. Initial interest in Willmar is 50% with interest in the adjoining acreage dropping to 25%. Two successful development wells have been completed in the Browning area at the time of writing, and two other tests were unsuccessful. Two follow-up wells are planned for evaluation of the Willmar discovery.

Seven exploratory dry holes were also drilled during the last six months.

The main exploratory drilling program during the coming six months will be in Alberta.

The major part of this effort will be carried out at no cost to the Company in the general Swan Hills-Virginia Hills reef area where two Beaverhill Lake (Slave Point reef) tests are committed by others. One of these east of the Judy Creek area is now drilling and the other one in the Virginia Hills area is expected to be started in the near future. The Company will be participating in two wells in this general reef area, one of which will be immediately west of the Swan Hills field and one an extension of the currently developing Freeman productive trend just northeast of the Virginia Hills field. A Triassic test is also planned for Company participation east of Kaybob on 33⅓% owned drilling reservation.

A further test is planned which will help to evaluate company acreage in the Peace River area.

Exploratory programs under the various farmout agreements in Northwestern Alberta will be commencing shortly. The first well announced is Cities Service Ponton East, located 20 miles north of Fort Vermilion in Township 112, Range 12.

The majority of the work during the coming season however will consist of seismic surveys. A number of exploratory wells are known to be scheduled on other acreage throughout this general area, all of which will assist in the evaluation programs on our acreage. The Company in its own behalf has planned a program of exploratory surveys on the 240,000 acres of Petroleum and Natural Gas lands which it is retaining in this area.

During the period under review the Company acquired 5,961 net acres out of a gross 14,865 acres in Saskatchewan and Alberta.

### *Financial*

The Company's gross income of \$1,113,900 was slightly (2%) lower than the income for the corresponding period last year. Cash flow of \$776,900 was 25% lower, reflecting

the much higher rental, interest and administrative costs. Net earnings were \$78,000, down from \$436,700 last year. This drop is a reflection of substantially higher dry hole and abandonment write-offs.

### *Operations and Development*

Net gas production for the six month period amounted to 4.01 Bcf which was the same as for the comparable period last year.

Oil production amounted to 198,303 barrels, a drop of approximately 4% compared with the same period last year. During the period under review the company participated in the drilling of nine development wells which resulted in three oil wells, two gas, three suspended and one abandoned.

Three additional wells were drilled in the East Northgate discovery area, with one on production and two suspended. Further development of this area has been deferred pending production history.

### *Production*

The following tabulation shows the Company's production for the six month period ended October 31, 1965 as compared with the same period in 1964. Production as shown is net to the Company after deduction of royalties:

	Quarter Ended October 31	
	1965	1964
Oil production—Bbls.	198,303	206,189
Average per day—Bbls.	1,078	1,121
Gas production—Mmcft	4,010.5	4,010.2
Average per day—Mmcft	21.8	21.8

A. F. Brek  
President.